



February 6, 2023

Board of Governors of the Federal Reserve System
20th Street and Constitution Avenue, N.W.
Washington, DC 20551

Attention: Ms. Ann E. Misback, Secretary

Re: Docket No. OP-1793 Principles for Climate-Related Financial Risk Management for Large Financial Institutions

Dear Ms. Misback:

Backpack Group LLC ("Backpack") appreciates the opportunity to comment on the Board of Governors of the Federal Reserve System's (the "FRB") proposed principles that would provide a high-level framework for the safe and sound management of exposures to climate-related financial risks for FRB-supervised financial institutions with over \$100 billion in assets (the "Principles").¹

Backpack was established to bring affordable and efficient access to robust operating data² of the \$16T "Built Environment"³. This operating data is essential to numerous multi trillion-dollar adjacent industries, ranging from the capital markets which provide essential financing, to insurance carriers who protect underlying collateral values. It also extends to the various products and services which have made the Built Environment responsible for 40% of the nation's greenhouse gas emissions. Thus, Backpack commends the FRB for its focus on the intersection of these important public policy objectives and the practical impact on the collateral values which, heretofore, have remained largely disconnected.

We have observed over the course of experience that a lack of access to a real-time stream of how a building operates has led to sub-optimal results for all. The FRB's exploration of impact on collateral value is only one of many notable examples. The fact remains, the need for high-fidelity, real-time information of how a building operates is largely common across industries, but access to the data generally is bespoke. The result is both inefficient and unnecessarily expensive, challenging risk management generally, and climate-related risk management more specifically.

¹ *Principles for Climate-Related Financial Risk Management for Large Financial Institutions*, 87 Fed. Reg. 75267 (Dec. 8, 2022).

² Examples of this data include: Johnson Controls Metasys® Building Automation System Data; HVAC system data; Energy Star ratings; energy usage and costs; water usage and costs; waste usage and costs; greenhouse gas emissions, savings and forecast; occupancy levels; weather conditions; parking availability and project status for energy savings projects.

³ The Built Environment includes all forms of commercial real estate—ranging from office buildings, industrial, retail, hospitality, hospitals, university campuses, apartment complexes, amongst others.

This dynamic, however, is starting to change. Today, open data platforms are available that allow banks and other firms to access continuous, real-time data on metrics, like a building's EnergyStar Score and energy management efficiency, provided by an independent third-party.³ The power of this data can be harnessed by property owners, financing sources and the capital markets more broadly without undue burden or expense to quantify the climate-related risks and other information regarding a building's operations. Accordingly, these data can be helpful to evaluate, for example, collateral value and to otherwise monitor climate-related attributes of financed properties on a real-time, ongoing basis. For instance, such data can be integrated into risk assessments and underwriting as well as portfolio management processes to help firms identify high-risk assets from a climate perspective (or, conversely, low-risk assets), diversify the profile of a bank's collateral, and to make decisions about prudent ways to allocate available capital in a safe and sound manner. In fact, action by bank boards of directors and senior management to better understand the climate-related financial risks of their institutions has already been encouraged by Federal Deposit Insurance Corporation Chairman Martin Gruenberg, who stated in October 2022 that:

In the near term, banks, including community and mid-size banks, should seek to better understand and consider their own unique climate-related financial risk and how it may impact them. As an initial step, boards of directors and senior management may wish to seek a better understanding about how climate change and climate-related financial risk are impacting the institution's business, customers, and communities, and how this risk may evolve over time.⁴

We believe that boards of directors and senior management are able to use the data we describe above to enhance their knowledge about climate-related financial risks faced by their firms and customers. As just one example, with these data, firms may be able to provide more targeted financing for the Built Environment assets that are managed to minimize their climate footprint and / or for the adaptation for buildings in low- and moderate-income ("LMI") communities, which the FRB's proposal notes could be disproportionately impacted by the effects of climate change .

We believe that quality data is data that is real-time, independent and accessible and that produces reliable, consistent and comparable results over time. Thus, we underscore the importance of the FRB's statement in the Principles that "[s]ound climate-related financial risk management depends on the availability of timely, accurate, consistent, complete, and relevant data." More specifically, we believe that timely and accurate data on the Built Environment could be taken into account by financial institutions to consider the climate-related attributes of properties they finance and to help inform decisions about how to provide safe and sound financing that is resilient to climate-related financial risks.

Along these lines, the FRB may wish to consider revising the Principles to establish the expectation that financial institutions make use of such affordable and accessible data to monitor and mitigate the climate-related financial risks of real estate financing. We believe that one of the challenges financial institutions could face in incorporating the Principles in their risk management frameworks is uncertainty with respect to what tools and data should be used as inputs to ensure the financial institution's safe and sound operation. For example, the Principles state that "[a] financial institution's board of directors (board) should *understand* the effects of climate-related financial risks on the financial institution" and "[s]ound governance by the board should include . . . clearly communicating to management *the information the board needs* to oversee the

³ The Backpack Group is just one example of how companies are working with the Built Environment to help owners and builders to provide important, real-time climate data to banks and other institutions.

⁴ Remarks by FDIC Acting Chairman Martin J. Gruenberg on the American Bankers Association Annual Convention "[The Financial Risks of Climate Change](#)" (Oct. 3, 2022).

measurement and management of climate-related financial risks.” Further, the Principles acknowledge that “[d]ata, risk measurement, modeling methodologies, and reporting continue to evolve at a rapid pace.”

The tools are available today to measure, record and assess a wide range of data about the Built Environment. The data can be used to monitor and manage climate-related risks, and also to evaluate whether there is a disproportionate impact of such risks on LMI communities. When financial institutions are required to accurately measure and record data for individual buildings or counterparties, they will be able to better evaluate and manage climate-related risks and, correspondingly, take action to reduce their exposure to assets that are vulnerable to climate risks (including, for example, transition risk, such as changes in collateral value based on the climate-related attributes of a financed building).

Financial institutions’ use of real-time, accurate and transparent data to measure their climate-related risks also could help regulators improve their supervisory work through the incorporation of enhanced data into the supervisory processes. Specifically, such data could help financial institutions and the FRB to calibrate scenario analyses (particularly with respect to transition risks) and to ensure that the scenarios they develop are realistic, credible and based on existing, real-time data. For example, the information Backpack’s product collects could bear on the collateral value of legacy buildings (that is, transition risks could manifest whereby the market value for such buildings could decline) and help financial institutions identify where there are opportunities for further climate mitigation and adaptation through infrastructure investments.

Moreover, to the extent a building’s climate-related attributes are determined to be information that is important for valuation of collateral and related financings, requiring monitoring and reporting of this information would help increase market efficiency and discipline. Without this information, markets alternatively could apply a punitive valuation to collateral that does not merit it or fail to take into account the valuation risk presented by buildings that are not operated in a sustainable manner.

Finally, data could be used to evaluate how financial institutions support financing green investments in LMI communities, including buildings with green attributes. For any such effort to be successful, the performance of these buildings would need to be monitored on an ongoing basis. For example, once commitments are made about climate-related investments in any particular LMI community, it is important for financial institutions to monitor the relevant building(s) performance to determine if such commitments are indeed being satisfied and the community is receiving the intended benefits.

Thank you for considering these comments and your attention to this important issue. If you have any questions, please feel free to contact the undersigned ((305) 229-6448 or David.kaiserman@backpacknetworks.com).

Letter to Ms. Ann E. Misback
Re: docket no. Op-1793

February 6, 2023

Respectfully submitted,

/s/ David J. Kaiserman

David J. Kaiserman
Chairman and Chief Executive Officer

cc: David B. McCain, Esq. (Secretary and General Counsel, Backpack Group LLC)